

Message Text

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ACTION AID-20

INFO OCT-01 EA-11 ADP-00 IGA-02 EB-11 OMB-01 TRSE-00 PM-09

NSC-10 SS-14 RSC-01 L-03 CIAE-00 INR-09 NSAE-00

DODE-00 T-03 AGR-20 RSR-01 /116 W
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R 151135 Z MAR 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 0502

INFO AMEMBASSY VIENTIANE

C O N F I D E N T I A L PHNOM PENH 2322

FOR STATE/ AID

VIENTIANE: PASS TO DR. HANNAH

E. O. 11652: GDS

TAGS: EFIN, EAGR, CB

SUBJ: NOUVEAU MARCHE, ESF AND FINANCING OF PL 480 FREIGHT

REF: PHNOM PENH 2058

1. SUMMARY. ON THE ASSUMPTION THAT THE SECOND TRANCHE OF \$4.0 MILLION OF THE US CONTRIBUTION WILL BE WITHHELD FOR SOME TIME PENDING EVIDENCE THAT SUBSTANTIAL PROGRESS IS BEING MADE ON THE REDUCTION IN THE NUMBER OF MEN PAID BY FANK, THE BNC WILL PUT UP \$2.0 MILLION TO FINANCE THE OPERATION OF THE NOUVEAU MARCHE. THE GOVERNOR OF THE BNC IS PREPARED TO RECOMMEND THE CONVERSION OF AT LEAST \$1.5 MILLION OF THIS AMOUNT INTO AN ADDITIONAL CONTRIBUTION TO THE ESF OVER AND ABOVE THE \$7.0 MILLION PROMISED BUT WANTS THIS CONSIDERED IN THE CONTEXT OF US FINANCING OF \$4.0-5.0 MILLION OF PL 480 FREIGHT COSTS. THE LATTER QUESTION WAS DISCUSSED FURTHER DURING THE VISIT OF DR. HANNAH AND WE ARE REQUESTING THE MATTER BE EXAMINED AGAIN. END SUMMARY.

2. AS REPORTED BY REFTTEL, THE WORKING GROUP OF THE ESF SUGGESTED TO THE BNC THAT IT INCREASE ITS FINANCING OF THE NOUVEAU MARCHE FROM THE ORIGINALLY PROPOSED \$1.0 MILLION TO
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\$2.0 MILLION IN ORDER TO PERMIT THE MARKET TO OPERATE IN NORMAL FASHION PENDING THE RECEIPT OF ADDITIONAL CONTRIBUTIONS BY THE ESF. HING KUNTHEL HAS SINCE ADVISED US THAT HE HAS ADOPTED THIS RECOMMENDATION. THUS WHEN THE NOUVEAU MARCHE REOPENS, WHICH WILL OCCUR WHEN THE EUROPEAN MARKETS RESUME OPERATIONS, THERE WILL BE SUFFICIENT FINANCING FOR NON-CIP IMPORTS FOR ALMOST A NORMAL FOUR-WEEK DEMAND.

3. HING KUNTHEL IN A CONVERSATION WITH DR. HANNAH ON MARCH 15 SAID THAT HE FULLY UNDERSTOOD AND SUPPORTED THE DECISION OF THE USG TO WITHHOLD THE SECOND TRANCHE PAYMENT OF \$4.0 MILLION PENDING THE MAKING OF PROGRESS ON THE "EFFECTIVES" QUESTION. THIS IS ENCOURAGING AND MAY EXPLAIN IN PART WHY THE GOVERNOR IS PREPARED TO PROVIDE SUBSTANTIAL FINANCING OF THE NOUVEAU MARCHE. IN ANY EVENT, THIS IS THE CULMINATION OF A SUSTAINED EFFORT ON THE PART OF OURSELVES, THE OTHER MEMBERS OF THE WORKING GROUP AND EVERS TO KEEP THE EXCHANGE MARKET IN BEING AND ADEQUATELY FUNDED WHEN IT REOPENS.

4. FOLLOWING THE DECISION TO PROVIDE \$2 MILLION IN FUNDS TO THE NOUVEAU MARCHE, WE TOOK UP WITH THE GOVERNOR THE POSSIBILITY OF THE GKR CONVERTING THIS FINANCING INTO AN ADDITIONAL CONTRIBUTION TO THE ESF WHICH WE COULD THEN MATCH. HING KUNTHEL LAST WEEK IN CONVERSATION WITH WEDEMAN AND AGAIN ON MARCH 15 WITH DR. HANNAH SAID HE WAS PREPARED TO PUSH AHEAD ON THIS BASIS BUT LINKED THE ADDITIONAL INPUT TO US FINANCING OF \$4.0-5.0 MILLION OF PL 480 FREIGHT COSTS.

5. THIS IS OF COURSE A MATTER THAT HAS BEEN DISCUSSED BEFORE, MOST RECENTLY WHEN THE IMF MISSION WAS IN PHNOM PENH IN JANUARY. THERE ARE SEVERAL WAYS IN WHICH A SOLUTION COULD BE ARRIVED AT BE:

A. ASKING THE GKR TO INCREASE FURTHER ITS CONTRIBUTION TO THE ESF AND THEN MATCH THIS ADDITIONAL INPUT. THIS MIGHT PERMIT THE QUESTION OF FINANCING OF INVISIBLES TO BE RESOLVED WITHOUT THE NECESSITY OF A FRONTAL ATTACK.

B. INCREASING THE USG CONTRIBUTION TO THE ESF WITHOUT AN EQUIVALENT INFUSION BY THE GKR OR OTHER DONORS, THUS CARRYING THE US INPUT TO OVER 50 PCT OF THE TOTAL. THIS POSSIBILITY WAS CANVASSED LAST FALL WITH HING KUNTHEL WAS IN AID/W.

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C. MAKING APPROPRIATE PROVISION IN THE FY 1974 FAA

TO PERMIT FINANCING WITH AID FUNDS OF PL480 FREIGHT COSTS
GENERALLY, THUS NEGATING THE BAN IMPOSED BY PL480.
DR. HANNAH HAS REQUESTED THAT THE QUESTION OF FINANCING
OF PL480 FREIGHT COSTS BE EXAMINED AGAIN, PARTICULARLY WITH
REFERENCE TO THE POSSIBILITIES OUTLINED IN PARAGRAPHS B. AND C.
MEANWHILE WE WILL PURSUE THE FIRST OPTION WITH HING KUNTHEL.
SWANK

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